INFORMATION BULLETIN

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Optional Application of a 3% Lodging Tax

This information bulletin describes the changes that will be made to the lodging tax system to enable regional tourist associations that want this tax to apply in their territory to choose between the imposition of the existing specific tax of $2 per overnight stay or the imposition of an *ad valorem* tax of 3% of the price of each overnight stay.

In addition, it makes public the application of this 3% tax in the Montréal and Laval tourist regions as of July 1, 2005, further to requests to that effect submitted by their respective regional tourist associations.

For information concerning the matters dealt with in this information bulletin, contact the Secteur du droit fiscal et de la fiscalité at (418) 691-2236.

The French and English versions of this bulletin are available on the website of the ministère des Finances at: www.finances.gouv.qc.ca

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Finances
Québec

Optional application of a 3% lodging tax

In 1996, the government set up a tourist partnership fund to strengthen and sustain tourist promotion and development in Québec. The fund is financed in part by a specific tax on lodging of $2 per overnight stay that may be applied, since April 1, 1997, to each accommodation unit rented in a sleeping-accommodation establishment located in a Québec tourist region which requests the government accordingly through its regional tourist association (RTA).

The revenue generated by this tax, after deducting the costs of its administration, are remitted to the participating regions and the amounts thus remitted are used in accordance with the terms and conditions agreed to in a memorandum of understanding between the ministère du Tourisme and the RTAs of these participating regions. Currently, the tax is applicable in most tourist regions of Québec.

At the unveiling of the new Tourism Policy of Québec last May 5, the government announced that to provide additional support for tourism development and promotion, it was prepared to allow RTAs that want the lodging tax to apply in their region to choose between the existing specific tax of $2 or an *ad valorem* tax of 3%.

RTAs that ask the government to impose a lodging tax in their territory will henceforth be able to indicate whether they prefer a tax of $2 per overnight stay or a tax of 3% of the price of each overnight stay. RTAs of tourist regions where the $2 specific tax already applies will have to submit a new request to the government if they wish to replace this tax with the 3% *ad valorem* tax.

❑ Calculation of the 3% tax

The 3% lodging tax will apply to the price asked for an overnight stay in an accommodation unit and, if applied, must be calculated solely on the portion of the price attributable to the rental of such unit.

In the case where the operator of a sleeping-accommodation establishment supplies, for a single price, both an accommodation unit and other goods or services, such as meals and entertainment activities, he must establish the portion of the price attributable to the rental of the accommodation unit since the 3% tax will apply only to such portion.

In that regard, the Minister of Revenue may determine the price reasonably attributable to the rental of an accommodation unit if he considers that the price otherwise established by the supplier of such unit for the calculation of the tax is less than the fair market value of its rental.

For the purposes of calculating the 3% tax, where the amount of the tax payable includes a fraction of a cent, such fraction will have to be included only if it is equal to or greater than half a cent, in which case the amount of the tax must be rounded up to the nearest cent.

❑ Indication of the 3% tax

Currently, the lodging tax system stipulates that the person required to collect such tax must show it on the invoice, receipt, slip or other document on which the amount paid or payable for an accommodation unit is indicated. Such person may accordingly choose to indicate that the amount thus paid or payable includes the $2 lodging tax or to indicate the amount relating to the accommodation unit and the $2 lodging tax separately.

A similar rule will also apply for the indication of the 3% tax, if the amount paid or payable for an accommodation unit that is shown on the invoice, receipt, slip or other document, is attributable solely to such unit, whether the unit is supplied alone or with other goods or services. Accordingly, the person required to collect the 3% lodging tax may choose either to indicate that the amount paid or payable for the rental of an accommodation unit includes the 3% lodging tax, or to indicate the amount relating to the rental of the accommodation unit and the 3% lodging tax separately.

However, where an accommodation unit is supplied with other goods or services and the amount paid or payable shown on the invoice, receipt, slip or other document is not solely attributable to the rental of an accommodation unit, the person required to collect the tax must then indicate the amount of the tax separately, specifying that it is the 3% lodging tax.

❑ Accommodation unit acquired for re-supply

In general, the 3% lodging tax will apply where the operator of a sleeping-accommodation establishment supplies an accommodation unit to a customer, i.e. a person who acquires the unit other than to re-supply it for a price.

However, where a customer acquires an accommodation unit from a person who acquired the unit from another person solely to re-supply it for a price, the lodging tax will not be 3% of the price of each overnight stay but rather $3 per overnight stay. Accordingly, in such a case, the application of a specific tax of $3 instead of an *ad valorem* tax of 3% will enable the existing lodging tax pre-collection system to be maintained, ensuring the direct nature of the tax while simplifying its administration entrusted essentially to operators of sleeping-accommodation establishments.

Application of the 3% lodging tax in the Montréal and Laval tourist regions

Since April 1, 1997, the specific tax on lodging of $2 per overnight stay has applied in the Montréal and Laval tourist regions. Further to requests submitted by the RTAs of these regions, this specific tax of $2 per overnight stay will be replaced, as of July 1, 2005, by the *ad valorem* tax of 3% of the price of each overnight stay or the specific tax of $3 per overnight stay, as the case may be.

Accordingly, the operator of a sleeping-accommodation establishment located in the Montréal or Laval tourist region will have to collect or pre-collect the 3% or $3 lodging tax, as the case may be, regarding an accommodation unit rented in his establishment that he invoices after June 30, 2005 for occupation after that date.

However, the operator of a sleeping-accommodation establishment will not have to pre-collect the $3 tax regarding accommodation units invoiced to a travel intermediary when the price of these units has been set under an agreement reached before July 1, 2005 between the operator of the establishment and the travel intermediary and occupation by tourist customers takes place between June 30, 2005 and April 1, 2006. In these circumstances, the operator will continue to be required to pre-collect the existing $2 tax.